

# Tax Structure Work Group: Report out on Statewide Community and Business Engagement

Senate Ways and Means Committee  
2022 Legislative Session



# Presentation Outline

- **Background** – Dean Carlson, Department of Revenue
- **Review of Tax Scenarios** – Morgan Shook, ECONorthwest
- **Overview of Interim Public Engagement Report** – Sophie Glass, Triangle Associates
- **Next Steps** – Dean Carlson, Department of Revenue

# Tax Structure Work Group Members



Rep. Noel Frame, Co-Chair  
(D-Greenwood)



Sen. Keith Wagoner, Co-Chair (R-Sedro-Woolley)



Rep. Pat Sullivan (D-Covington)



Rep. Ed Orcutt (R-Kalama)



Rep. Jesse Young (R-Gig Harbor)



Sen. Joe Nguyen (D-White Center)



Sen. Lisa Wellman (D-Mercer Island)



Sen. Phil Fortunato (R-Auburn)



Scott Merriman, Governor's Legislative Liaison



Dean Carlson, Senior Tax Policy Coordinator, DOR



Mayor Anne McEnerny-Ogle, City of Vancouver (representing the Association of Washington Cities)

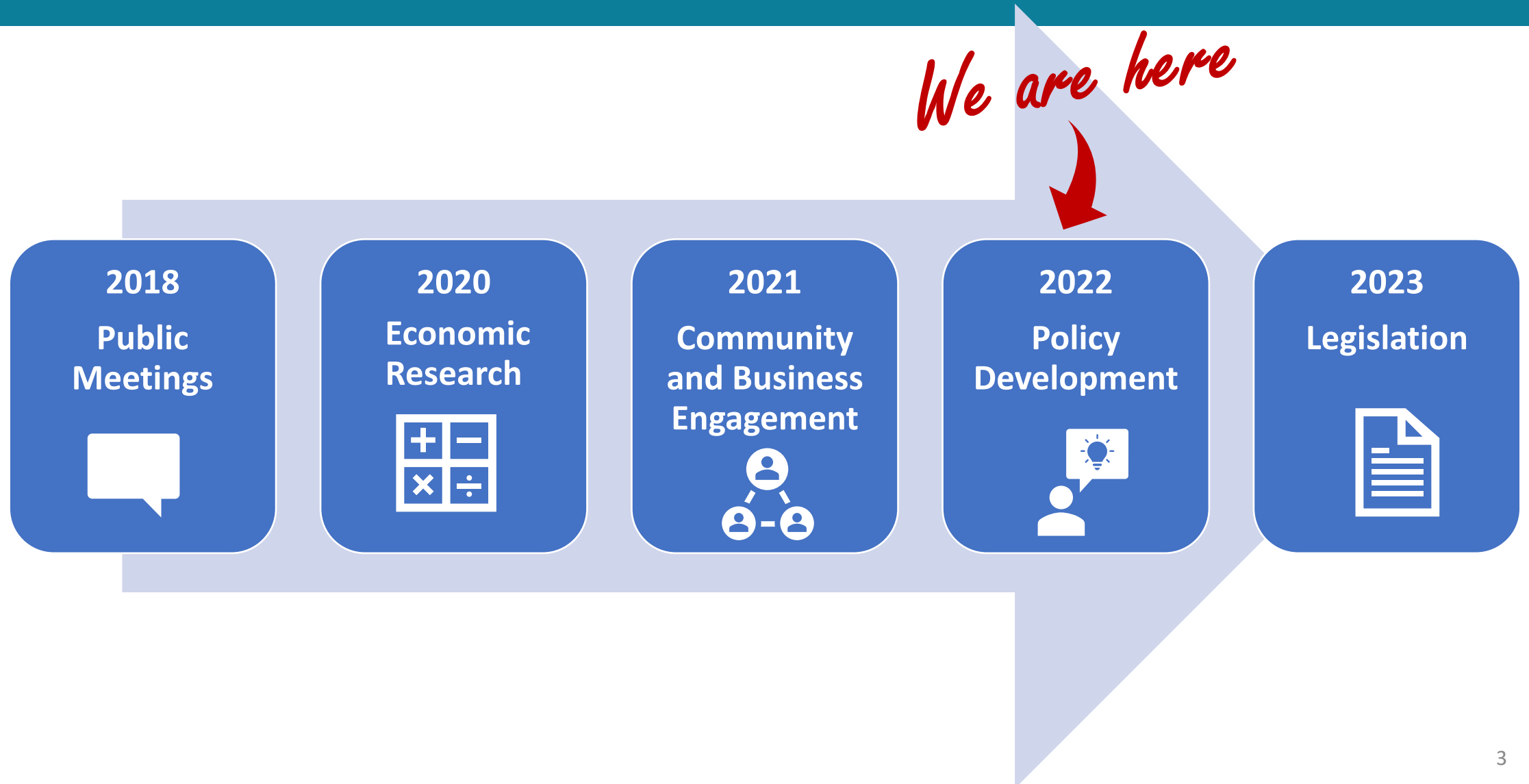


Councilmember Derek Young, Pierce County (representing the Washington State Association of Counties)

## GOAL:

*To improve Washington's state taxes to better serve the people of Washington.*

# Where Are We in the Process?



# Tax Scenarios: Ideas for Washingtonians to Consider

Update Property Tax  
and Tax Personal  
Wealth



Property Tax



Wealth Tax

Replace B&O Tax  
and add Employer  
Compensation Tax



B&O Tax



Value Added Tax or  
Margins Tax



Employer  
Compensation Tax

Tax Personal Income  
and Corporate Income



B&O Tax



Sales Tax



Property Tax



Personal Income  
Tax



Corporate  
Income Tax

Change Property  
Tax Limit Factor



Property Tax

# **Scenario A**

**Revise State Property Tax Levy Limit**

# What would change under this scenario?

**The current law caps the state property tax levy growth at the lesser of the implicit price deflator or 1% growth (plus the new construction add-on). In this scenario, that limitation factor would be benchmarked to a new inflation factor tied to the cumulative rates of population growth and inflation.**

- **“inflation”**: means the percentage change in the implicit price deflator per RCW 84.55.005.
- **“population change”**: is the percent increase in the population of the state between the two most recent years provided in the official population estimates published by the Office of Financial Management in April of the year before the taxes are payable.

This scenario is not revenue neutral.

# What are the rates?

## Scenario A Tax Rates

Taxes		Current Law, State Property Tax			Scenario A, State Property Tax 2022		
Due		Rate Part 1	Rate Part 2	Total	Rate Part 1	Rate Part 2	Total
2022		1.64783	0.88924	2.53707	1.69045	0.91224	2.60269
2023		1.58775	0.85683	2.44458	1.65658	0.89397	2.55055
2024		1.53164	0.82662	2.35826	1.62524	0.87712	2.50236
2025		1.4826	0.80074	2.28334	1.59976	0.86400	2.46376
2026		1.43731	0.77643	2.21374	1.57640	0.85155	2.42795
2027		1.41844	0.76639	2.18483	1.58500	0.85636	2.44136

### What tax rate did we examine in the December 2020 tax structure analysis?

In 2020, we estimated how much revenue would have been generated for the 2017-19 Biennium if the 1 percent revenue growth limit on regular state property taxes was replaced with a limit based on population growth and inflation if the state had implemented this alternative on January 1, 2003.



# **Scenario B**

**PRPTE (Primary Residence Property Tax  
Exemption) and Wealth Tax**

# What would change under this scenario?

**This proposal creates an exemption for residential property tax parcels that are occupied as the principal place of residence and adds a wealth tax.**

- **State Property Tax:** creates an exemption from Part 1 & 2 of the state school levy for up to the first \$250,000 of assessed value on residential property. This does not apply to locally levied property taxes.
  - The exemption does not “shift” the property tax burden.
  - Requires an amendment to the state Constitution.
- **Wealth Tax:** imposed on the taxable worldwide wealth of individuals who reside in Washington. Up to \$1 billion of an individual's financial intangible assets are exempt from the wealth tax.

# What are the rates?

## Scenario B Tax Rates

Taxes	Current Law, State Property Tax		Wealth Tax
Due	Rate Part 1	Rate Part 2	Rate
2022	1.64783	0.88924	0.50%
2023	1.58775	0.85683	0.38%
2024	1.53164	0.82662	0.41%
2025	1.48260	0.80074	0.40%
2026	1.43731	0.77643	0.41%
2027	1.41844	0.76639	0.45%

### What tax rate did we examine in the December 2020 tax structure analysis?

In 2020, we estimated how much revenue would have been generated for the 2017-19 Biennium if the 1 percent revenue growth limit on regular state property taxes was replaced with a limit based on population growth and inflation if the state had implemented this alternative on January 1, 2003.

However, no option to provide a property tax exemption with a wealth tax was analyzed.

# **Scenario E and F**

**Personal Income Tax (Flat and  
Progressive Rates)**

# How would tax rates change?

- The state **sales tax would be reduced** from its 2022 forecasted rate of 6.5 percent **to 4.5 percent**.
- For the state property tax in 2023, the rate is forecasted to be \$2.44 per \$1,000 of assessed value of property. If the **property tax is reduced by 25%**, and a shifting **primary residence exemption of the first \$250,000** of the assessed value is added, the state property tax rate only changes very minorly (by less than \$0.01 in the first year of the change).
- Washington state does not currently have a **personal income tax (PIT)**.
  - A graduated PIT rate ranging from **2.1 percent to 4.2 percent** would apply to each filer depending on their income.
- Washington state does not currently have a **personal income tax (PIT)**.
  - A flat PIT rate of **3.7 percent** would apply to the filer's income.

# Progressive PIT Rates

## Effective rates of personal income taxation for selected income brackets:

Income Bracket (AGI)	Effective Rate (% income paid in taxes)
\$15,000 - \$20,000	0.6%
\$35,000 to \$40,000	1.7%
\$50,000 to \$60,000	2.2%
\$90,000 to \$100,000	2.9%
\$100,000 to \$250,000	3.2%

## For Reference:

- The federal poverty level for a family of four is \$21,720 in income for 2020.
- Per capita, personal income in Washington is estimated at \$68,322 by the Bureau of Economic Analysis for 2020.
- The median household income for Washington is estimated at \$81,083 by US Census for 2020.

# Scenario C

**VAT (Value Added Tax) and Employer  
Compensation Tax**

# What would change under this scenario?

**This proposal eliminates the B&O tax, adds an employer compensation tax, and adds a subtraction-method Value Added Tax (VAT).**

- **Employer compensation tax:** a tax on compensation paid to employees located in Washington for businesses that make over \$7,000,000 in worldwide income. This tax exempts the first \$150,000 per year in compensation for each employee.
- **Subtraction-method VAT:** a tax on the gross receipts of businesses minus the purchase of intermediate goods and services from other businesses. Small businesses can also claim an exemption of \$1 million of annual receipts. The small business exemption phases out linearly to zero for taxpayers with \$2 million of receipts.



# What are the rates?

## Scenario C Tax Rates

Tax	Current Law	Employer Worldwide Payroll	Proposal
B&O Tax	Varies	NA	NA
Employer Compensation Tax	NA	\$0 - \$7,000,000	0%
Employer Compensation Tax	NA	\$7,000,000 to \$100,000,000	0.25%
Employer Compensation Tax	NA	Over \$100,000,000	0.50%
Value Added Tax	NA	NA	2.6%

### What tax rate did we examine in the December 2020 tax structure analysis?

In December 2020, we used a 2.2% tax rate for the VAT.

This analysis did NOT include the \$1 million small business exemption or the Employer Compensation Tax.

# **Scenario D**

**Margins Tax and Employer  
Compensation Tax**

# What would change under this scenario?

**This proposal eliminates the B&O tax, adds an employer compensation tax, and adds a Margins Tax.**

- **Employer Compensation Tax:** a tax on compensation paid to employees located in Washington for businesses that make over \$7,000,000. This tax exempts the first \$150,000 per year in compensation for each employee.
- **Margins Tax:** a tax on the gross receipts of businesses minus one of four deductions:
  - 30 percent of taxable income (before deduction);
  - Cost of goods sold;
  - Total compensation paid; or
  - \$1 million (subject to apportionment)

# What are the rates?

## Scenario D Tax Rates

Tax	Current Law	Employer Worldwide Payroll	Proposal
B&O Tax	Varies	NA	NA
Employer Compensation Tax	NA	\$0 - \$7,000,000	0%
Employer Compensation Tax	NA	\$7,000,000 to \$100,000,000	0.25%
Employer Compensation Tax	NA	Over \$100,000,000	0.50%
Margins Tax	NA	NA	2.5%

### What tax rate did we examine in the December 2020 tax structure analysis?

In December 2020, we used a 2.7% tax rate for the Margins Tax.

This analysis did NOT include the Employer Compensation Tax.

# **Scenario E and F**

**Corporate Income Net Receipts  
(Flat and Progressive Rates)**

# What would change under this scenario?

## **This proposal modifies current law taxes as follows:**

- Reduces the state sales tax rate from 6.5 percent to 4.5 percent.
- Reduces the state property tax rate by 25 percent.
- Adds a state property tax primary residence exemption of \$250,000 (but shifts the tax to others through an increase in the rate).
- Eliminates the B&O tax.

## **The proposals adds a corporate income net receipts tax [CINRT]:**

- Scenario E: flat rate of 3.7%
- Scenario F: a progressive rate structure
  - Portion of taxable less than or equal to \$1 million = 3.30%
  - Portion of taxable more than \$1 million = 3.75%

# What are the rates?

## Scenario F Rates:

	Current	Proposal
State Sales/Use Tax Rate	6.50%	4.50%

	Current	Proposal
Business and Occupation Tax	Varies	0%

	Current
Corporate Income Net Receipts Tax	0.00%

	Current
Personal Income Tax	0.00%

Current Law Property Tax	Rate Part 1	Rate Part 2
2022	1.64783	0.88924
2023	1.58775	0.85683

Corporate Income Net Receipts Tax	Proposal
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Portion of taxable less than or equal to \$1 million	3.30%
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Portion of taxable more than or equal to \$1 million	3.75%
------------------------------------------------------	-------

	Proposal		
Personal Income Tax	Single	Joint	Rate

Portion of the taxable less than or equal to	3,450	6,900	2.10%
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Portion of the taxable is more than the above row, and less than or equal to	8,500	17,000	2.90%
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Portion of the taxable is more than the above row, and less than or equal to	125,000	250,000	3.80%
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Portion of the taxable is over the above row	-----	-----	4.20%
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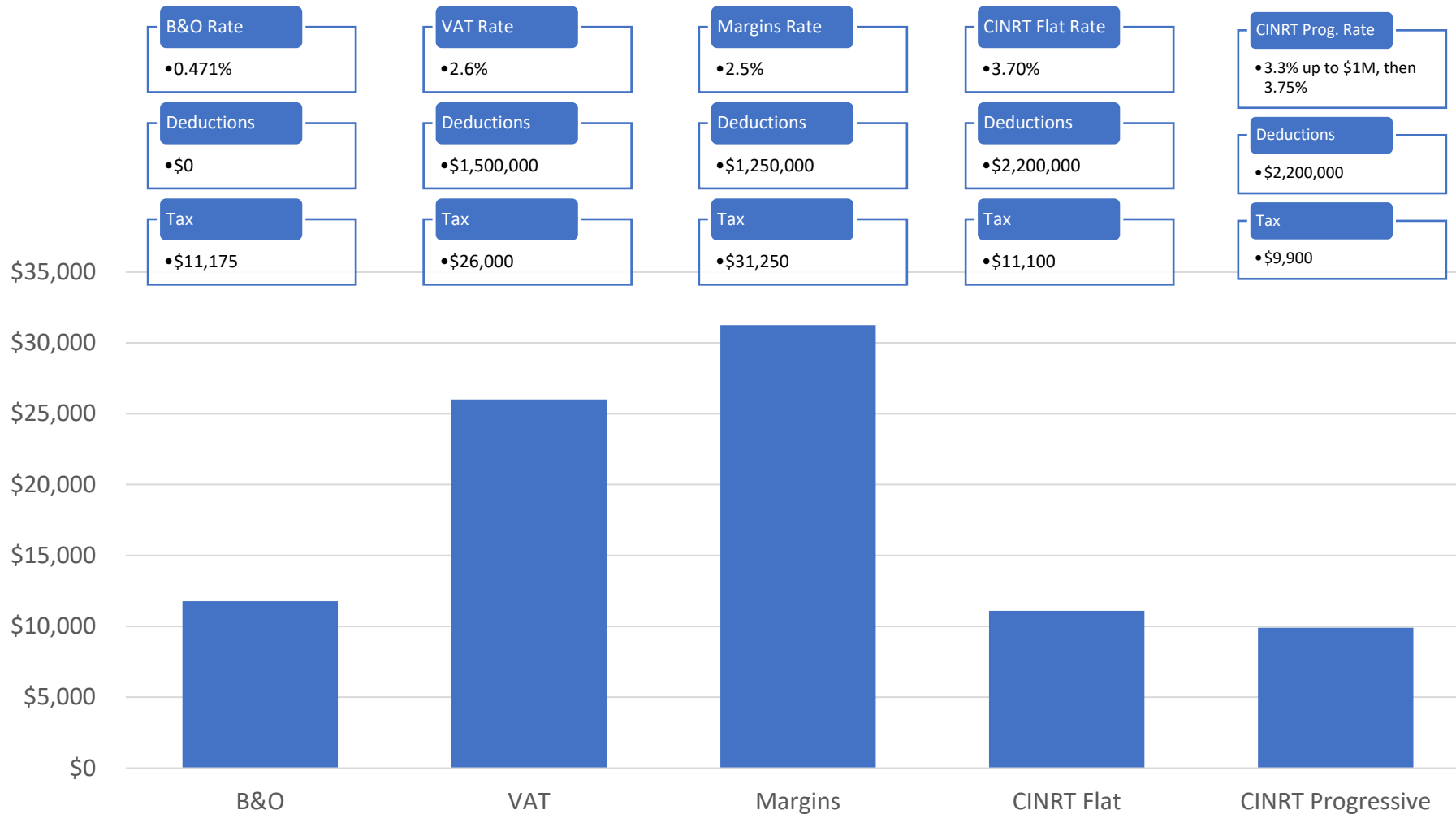
# **Comparison and Discussion**

**VAT, Margins, CINR**



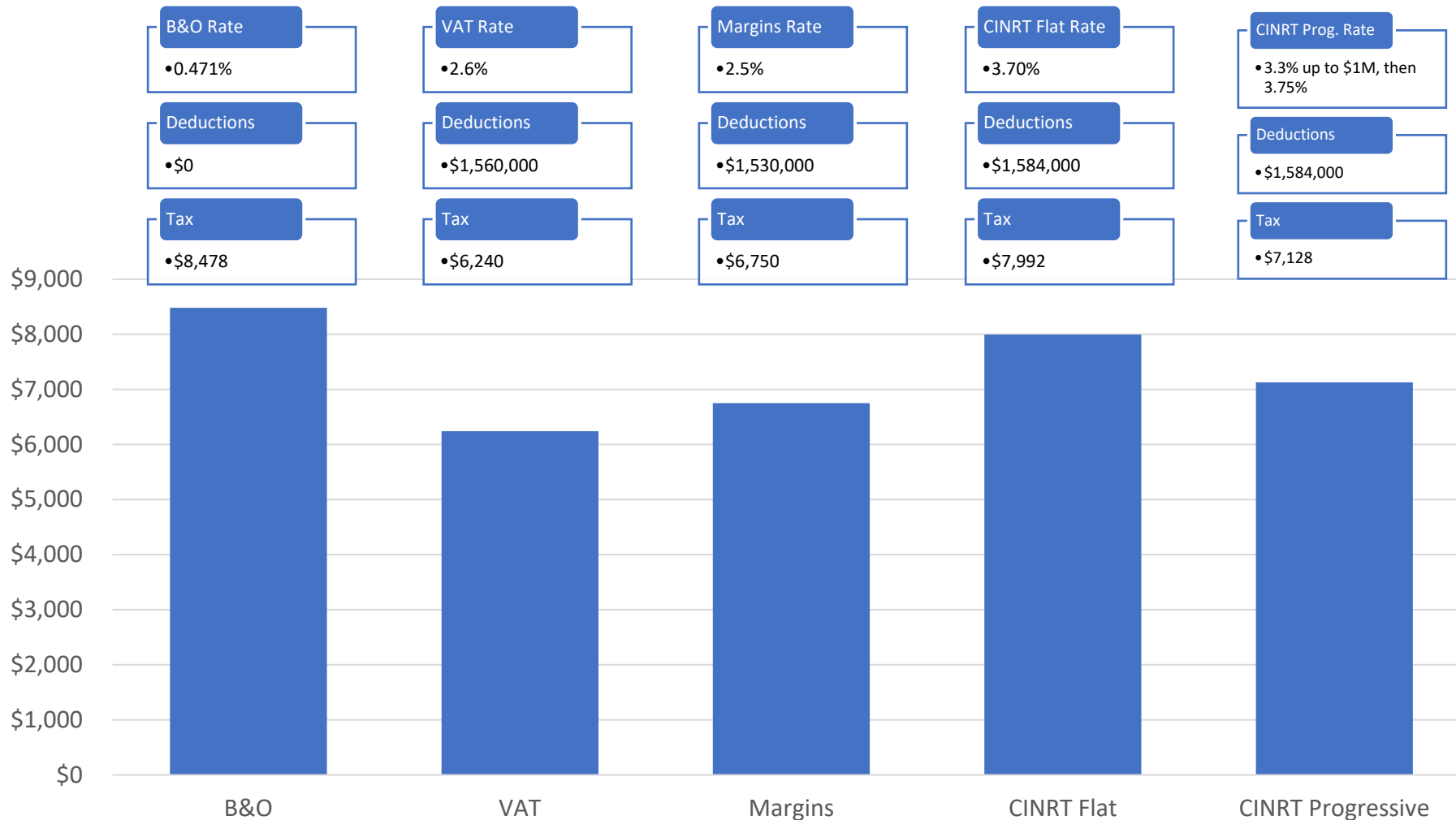
# Business Tax Example

## Restaurant, \$2.5M in gross receipts



# Business Tax Example

## Retailer, \$1.8M in gross receipts



# Community Engagement

# What We Heard: Benefits

Benefit	Tax Scenario						
	Current Tax Structure	A (property tax limit factor)	B (wealth tax + property tax)	C (VAT + ECT)	D (Margins + ECT)	E (Flat income taxes)	F (progressive income tax)
Simplicity	✓					✓	
Stable source of revenue	✓	✓				✓	✓
Wealthy people or profitable businesses pay more based on capacity to pay			✓	✓	✓	✓	✓
Relief for people with low incomes or small businesses			✓	✓	✓	✓	✓
Consistent application	✓			✓		✓	

# What We Heard: Concerns

	Tax Scenario						
Concern	Current Tax Structure	A (property tax limit factor)	B (wealth tax + property tax)	C (VAT + ECT)	D (Margins + ECT)	E (Flat income taxes)	F (progressive income tax)
Regressive (disproportionately burdens people with low incomes)	✓	✓				✓	✓
Wealthy individuals can leave the state or find loopholes	✓		✓	✓			
Slippery slope (tax rate or base may increase in the future)	✓	✓	✓			✓	✓
Too complicated				✓	✓		
Discourages economic growth	✓			✓	✓	✓	✓
Not appropriate for all industries				✓			
Disproportionately impacts people in poverty or communities of color	✓						



How

How Did We Engage  
People?



Who

Whom Did We Engage?

# Overview of Engagement Methods

Tax Town Halls



We Go To You Presentations



English Surveys



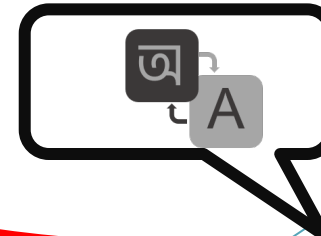
Multilingual Surveys



Emails



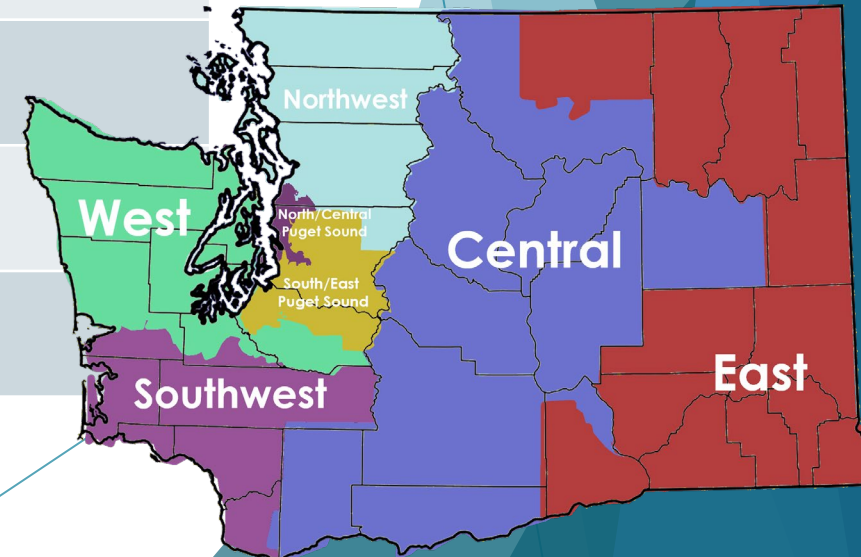
Multilingual Focus Groups



# Engagement Results: Tax Town Halls

Region	# of Participants
East Region	226
Central Region	146
Northwest Region	223
West Region	212
Southwest Region	144
North/Central Puget Sound Region	316
South/East Puget Sound Region	297

Total: 1,574





# Engagement Results: We Go to You Meetings

Aging and Disability Services (Seattle)  
Aging and Long Term Care of Eastern Washington  
Arc of Washington State  
Association of Washington Business  
Bellevue Chamber of Commerce  
Benton Franklin League of Women Voters  
Columbia River Economic Development Council  
Department of Revenue Technical Advisory Group  
Economic Alliance Snohomish County  
Greater Seattle Business Association (GSBA)  
Greater Spokane Incorporated  
Greater Spokane Valley Chamber of Commerce  
Greater Vancouver Chamber of Commerce  
King County League of Woman Voters  
National Federation of Independent Business  
North Pend Oreille County Chamber of Commerce

OneAmerica  
Port of Columbia  
San Juan Island Family Resource Center  
Spokane Low-Income Housing Consortium  
Tri County Economic Development District  
UW Tacoma undergraduate class  
Washington Community Alliance  
Washington Policy Center  
Washington Roundtable  
Washington Senior Lobby  
Washington State Microenterprise Association  
Washington State Pharmacy Association  
Whatcom County Democratic Women  
Youth Development Executives of King Co.

- 30 meetings
- 765 Washingtonians

# Engagement Results: We Go to You Meetings

**Aging and Disability Services (Seattle)**

**Aging and Long Term Care of Eastern Washington**

**Arc of Washington State**

**Association of Washington Business**

**Bellevue Chamber of Commerce**

**Benton Franklin League of Women Voters**

**Columbia River Economic Development Council**

**Department of Revenue Technical Advisory Group**

**Economic Alliance Snohomish County**

**Greater Seattle Business Association (GSBA)**

**Greater Spokane Incorporated**

**Greater Spokane Valley Chamber of Commerce**

**Greater Vancouver Chamber of Commerce**

**King County League of Woman Voters**

**National Federation of Independent Business**

**North Pend Oreille County Chamber of Commerce**

**OneAmerica**

**Port of Columbia**

**San Juan Island Family Resource Center**

**Spokane Low-Income Housing Consortium**

**Tri County Economic Development District**

**Washington Community Alliance**

**Washington Policy Center**

**Washington Roundtable**

**Washington Senior Lobby**

**Washington State Microenterprise Assoc**

**Washington State Pharmacy Association**

**Whatcom County Democratic Women**

**Youth Development Executives of King Co.**

**Organizations that  
represent  
disadvantaged  
communities**

# Engagement Results: We Go to You Meetings

Aging and Disability Services (Seattle)

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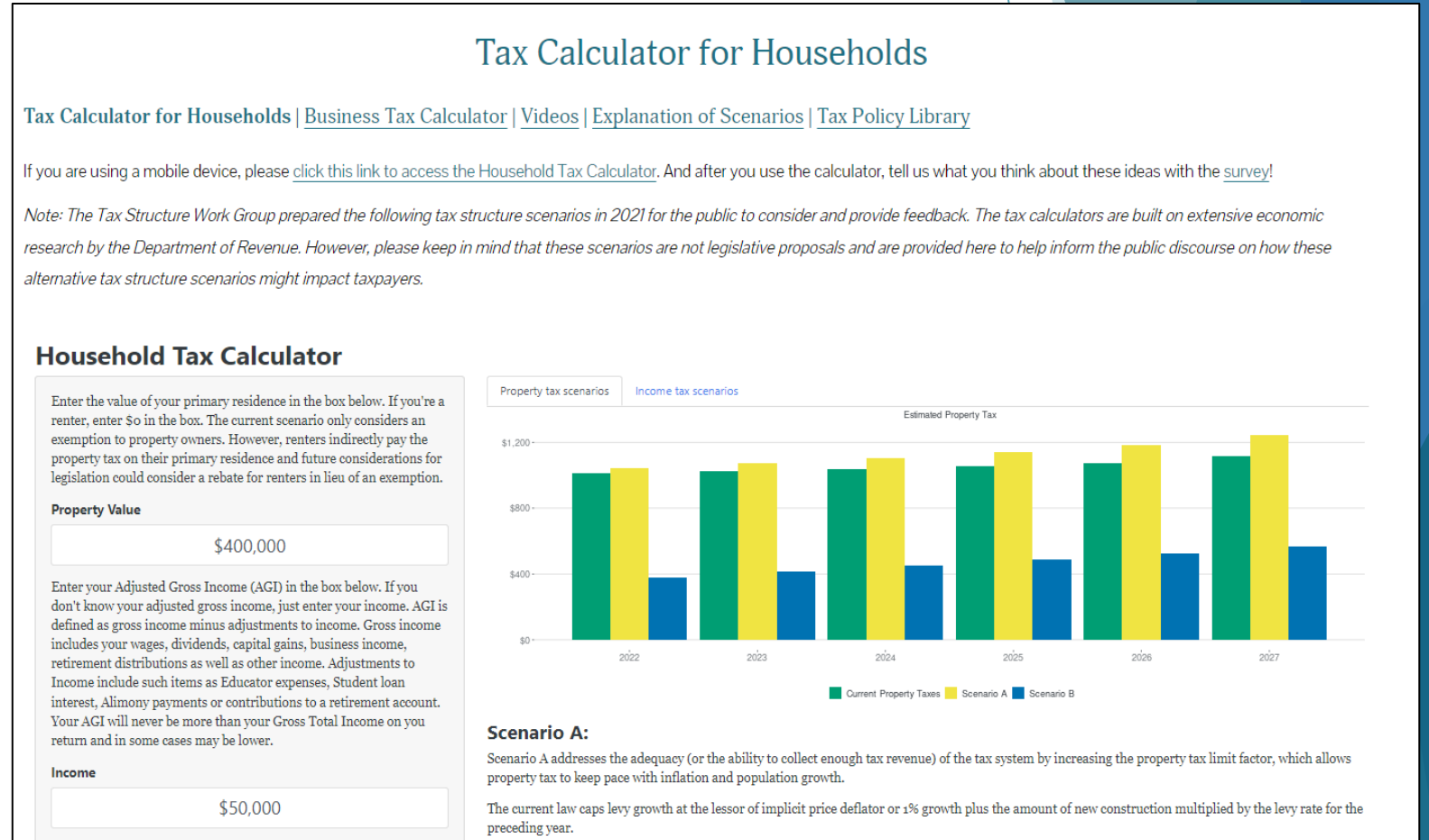
Business organizations

# Engagement Method: Multilingual Focus Groups

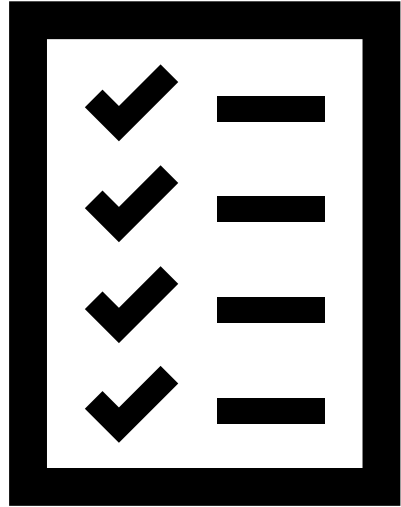
- Vietnamese focus group hosted by [Friends of Little Saigon](#).
- Russian focus group hosted by the [Pacific Ukrainian Society](#)
- Spanish focus group hosted by [Mujer Al Volante](#).
- Korean focus group hosted by [Korean Community Service Center](#).
- Cantonese focus group hosted by Chinese Chamber of Commerce
- Mandarin focus group hosted by InterImCDA

# Engagement Results: Website, Email, and Social Media

- Online tax calculator
- 11,000 unique website visitors from 9/1-11/22
- 22,000 website page views from 9/1-11/22
- 26 emails



# Surveys



- ▶ English surveys
  - ▶ Opened 9/22; deadline extended to 1/31/2022
- ▶ Multilingual surveys
  - ▶ Opened 11/9; deadline extended to 1/31/2022
- ▶ Results in the Final *Engagement Report* in spring

# Feedback on Principles

Engagement Source	Ranking
Tax Town Halls	<ol style="list-style-type: none"><li>1. Fairness (59%)</li><li>2. Transparency (16%)</li><li>3. Adequacy (11%)</li><li>4. Stability (9%)</li></ol>
Multilingual Focus Groups (Korean, Russian, Spanish, Vietnamese)	<ol style="list-style-type: none"><li>1. Fairness and Transparency (equally)</li><li>2. Adequacy</li><li>3. Stability</li></ol>

# Principles: Geographic Results

	Which principle is most important?			
Region	Fairness	Transparency	Adequacy	Stability
East	57%	23%	8%	8%
Central	49%	29%	2%	14%
Northwest	68%	11%	7%	11%
West	50%	16%	16%	13%
Southwest	52%	15%	11%	17%
North/Central Puget Sound	68%	10%	16%	2%
South/East Puget Sound	60%	18%	10%	9%
Overall	59%	16%	11%	9%



# What is a fair tax system?

Which statement best matches your sense of a fair tax for individuals and businesses?



- **Capacity:** Those individual and business taxpayers with **higher incomes** or revenue should pay a **higher percentage** of their income or revenue in taxes, and those with **lower incomes** or revenue should pay a **lesser percentage**
- **Consistency:** All individual and business taxpayers should **pay the same percent** of their income or revenue on taxes regardless of their income

# Definitions of Fairness

Engagement Source	Ranking
Tax Town Halls	<ol style="list-style-type: none"><li>1. Capacity (50%)</li><li>2. Consistency (26%)</li><li>3. Both, neither, or not sure (24%)</li></ol>
We Go to You Meetings	<ol style="list-style-type: none"><li>1. Generally, business-related groups supported “consistency” and community-related groups supported “capacity”</li></ol>
Multilingual Focus Groups (Korean, Russian, Spanish, Vietnamese, Mandarin)	<ol style="list-style-type: none"><li>1. Capacity</li><li>2. Both</li><li>3. Consistency</li></ol>

# Fairness: Geographic Results

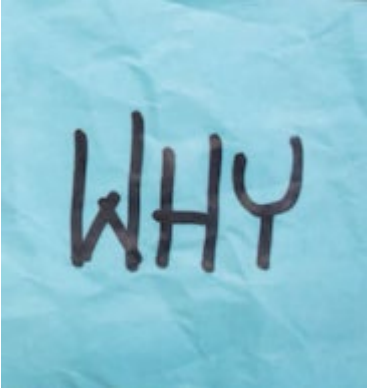
	What does a fair tax system look like?			
Region	Capacity	Consistency	Both	Neither
East	55%	43%	N/A	N/A
Central	31%	33%	27%	9%
Northwest	51%	22%	21%	6%
West	55%	22%	16%	7%
Southwest	19%	39%	36%	6%
North/Central Puget Sound	68%	9%	19%	2%
South/East Puget Sound	48%	27%	19%	6%
Overall	50%	26%	19%	5%

## Scenario B: Key Takeaways To Date



WHAT

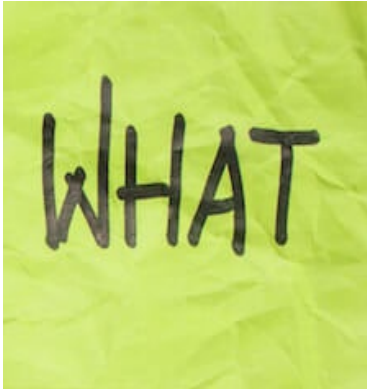
Participants expressed support for the idea of the wealthiest Washingtonians paying more in taxes, but overall participants had more concerns than support for a wealth tax.



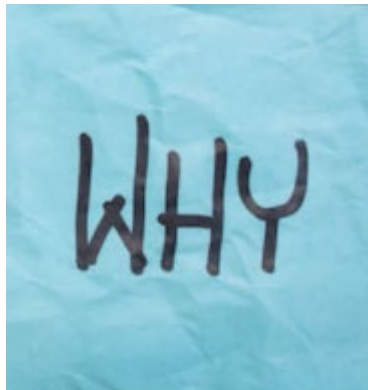
WHY

Participants expressed concerns that a wealth tax would not be a stable tax base given how easily billionaires can leave the state.

## Scenario B: Key Takeaways To Date



Most participants did not express support for a VAT and employer compensation tax combination.



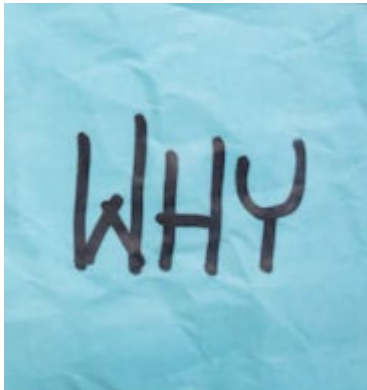
Participants noted that the VAT was fairer to small and low-margin businesses and expressed concern that the VAT would be too complicated for businesses to implement.

They also expressed concerns that the employer compensation tax might hinder economic growth.

## Scenario D Takeaways To Date



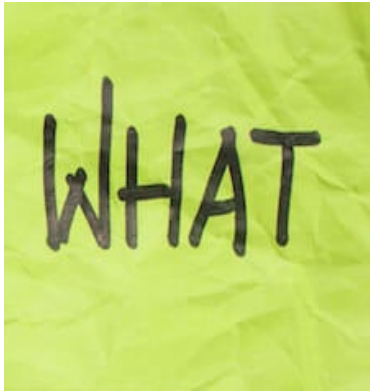
Participants expressed support for a margins tax but had concerns about pairing the margins tax with an employer compensation tax.



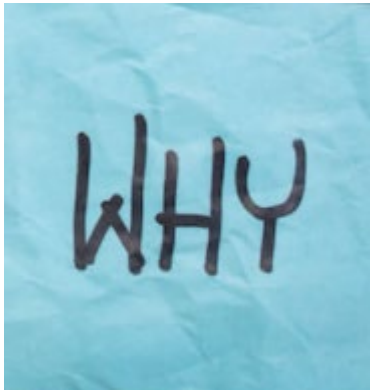
Participants indicated that a margins tax could be fairer to smaller businesses than B&O, but the employer compensation tax might hinder economic growth.\*

*\*Note that given the complexity of business taxes, participants described their concerns but did not always use the correct terminology for specific tax types.*

## Scenario E Takeaways To Date



There were more comments expressing concerns about a flat personal income tax and corporate income tax than comments in support.

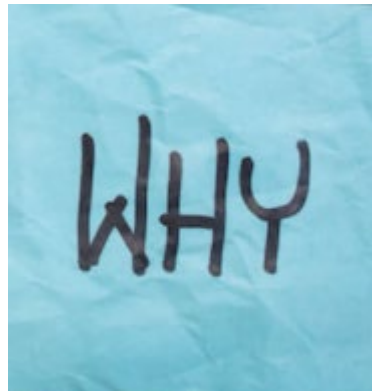


Participants expressed support for the idea of wealthier individuals/ businesses paying more based on their capacity to pay with a flat personal income tax and flat corporate income tax, while also expressing concern about future potential increases in tax rates.

## Scenario F Takeaways To Date



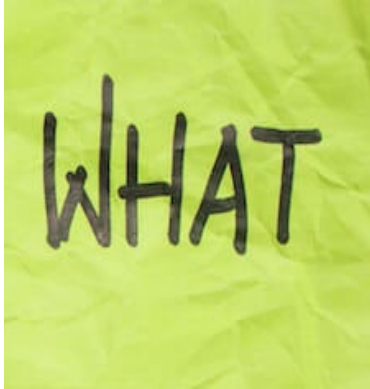
There were more comments expressing concerns about a progressive personal income tax and progressive corporate income tax than comments in support of these taxes.



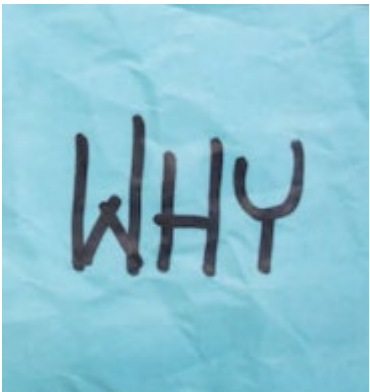
Participants expressed support for wealthier individuals/businesses paying 'their fair share' with a progressive personal income tax and progressive corporate income tax, but also expressed concerns about future potential increases in tax rates.



## Scenario A Takeaways To Date



Overall, participants did not express support for this Property Tax scenario.



Participants expressed concerns about property taxes continuing to increase over time.